

PUBLIC DISCLOSURE

February 8, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

ECONOMY CO-OPERATIVE BANK

**6 WEST MAIN STREET
MERRIMAC, MA 01860**

**DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act ("CRA) requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **ECONOMY CO-OPERATIVE BANK (or the "Bank")** prepared by the Division, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

Economy Co-operative Bank's CRA rating is based on four (of the five) lending performance criteria for small institutions. The Bank is evaluated within a performance context, taking into consideration its capacity to lend and the credit needs of its assessment area. Economy Co-operative Bank's satisfactory rating is based on: (1) an average net loan to deposit ratio of 71.5 percent; (2) a majority of mortgage loans granted inside its assessment area; (3) a good lending distribution among borrowers of different income levels; (4) regular implementation of fair lending policies and procedures. The geographic distribution of loans was not analyzed, since the Bank's assessment area consists of a single census tract. No discriminatory lending practices were noted. No CRA complaints were received by the Bank.

PERFORMANCE CONTEXT

Description of Institution

Economy Co-operative Bank incorporated in 1889 as a Massachusetts' chartered thrift institution. The Bank's operates its sole banking office in the Town of Merrimac, Massachusetts, situated in the town's central business area. This office has drive-up teller window, but no Bank owned ATM. However, the Bank issues ATM/debit cards and is a member of the SUM network of financial institutions. SUM member institutions do not levy ATM surcharges on their own or to other members' customers.

Economy Co-operative Bank, as of December 31, 2004 had total assets of \$23.4 million while total loans represented \$17.1 million or 73.0 percent of assets. The following table depicts the composition of the Bank's loan portfolio.

Loan Portfolio as of December 31, 2004		
Type of Loans	\$'s (000's)	% of Total Loans
Construction & Land Development	165	1.0%
Real Estate Loans		
a. 1-4 Family Mortgages*	15,422	90.4%
b. Commercial Real Estate	639	3.7%
Consumer Loans		
a. Loans to Individuals	829	4.9%
Other Loans		0.0%
Total	17,055	100.0%

Source: FDIC Call Report * Includes \$425 thousand in second mortgage loans.

Mortgage loans (secured by 1-4 family dwellings) represent the overwhelming majority (90.4%) of the Bank's loan portfolio. Consumer loans, commercial real estate and construction loans comprise the remainder (9.6% combined) of the loan portfolio.

As depicted, Economy Co-operative Bank is primarily a residential mortgage lender with some diversification in commercial real estate and consumer lending areas. The Bank is a member of the Federal Home Loan Bank of Boston and a Federal Home Loan Mortgage Corporation ("FHLMC") approved seller/servicer. (The Bank had not sold real estate loans during the evaluation period of 2003 and 2004.) The Bank's ability to meet community credit needs remains adequate based on its financial condition, asset size and product offerings.

The Division last evaluated Economy Co-operative Bank's CRA performance as of August 23, 1999. This evaluation resulted in an overall CRA rating of "Satisfactory". The Federal Deposit Insurance Corporation ("FDIC") last conducted a CRA evaluation as of August 19, 2003, which resulted in the Bank receiving a "Satisfactory" rating.

PERFORMANCE CONTEXT (CONTINUED)

Description of Assessment Area

CRA requires financial institutions to define an assessment area within which the bank will focus its lending efforts. The Division evaluates the institution's CRA performance based on this assessment area. Economy Co-operative Bank defines the Town of Merrimac as its CRA assessment area.

Merrimac comprises a single middle income census tract situated on the Massachusetts-New Hampshire border. In 2003, the town was part of the Lawrence MA-NH primary metropolitan statistical area ("PMSA"). The Lawrence, MA-NH PMSA, as part of the Boston MA-NH consolidated metropolitan statistical area ("CMSA"), had an area median income (or median family income) of \$74,300 in 2003.

In 2004, the Office of Management and Budget (OMB) reconfigured the MSAs nationwide, determining all MSA's (and their subdivisions) would be based on county boundaries. Consequently, the Town of Merrimac is now situated within the Boston MSA's Essex County Metropolitan Division ("MD"). The Essex County MD's median family income was \$76,000 in 2004.

This CRA evaluation utilizes demographic information (for both 2003 and 2004), which is based on the 2000 U.S. Census data. The Town of Merrimac (based on 2000 U.S. Census data) has a population of 6,138 people comprising 2,230 households of which 76.3 percent were family households. There were a total of 2,295 housing unit of which 80.6% were owner occupied, 16.7 percent were renter occupied and 2.7 percent were vacant units. The median housing value was \$201,000.

The CRA regulation defines income levels as low-income (less than 50 percent of the area median income), moderate-income (50 to 79 percent of median family income), middle-income (80 to 119 percent of area median income), and upper-income (120 percent and greater of the area median income). These income categories are used for both census tracts and borrower income levels. Based on 2000 Census data, Merrimac's sole census tract was defined as middle income, having a median income of 108.8 percent of the area median income (or median family income).

Of the family households (1,702 families) residing in the Town of Merrimac, low income and moderate-income families represented 13.9 and 20.0 percent, respectively. Middle income families comprised 22.5 percent of all family households and upper income families represented 43.6 percent of the total family households.

Aggregate Lenders' Data and Scope of the Evaluation

The Home Mortgage Disclosure Act ("HMDA") requires lenders to report all purchase mortgages, refinances and home improvement loans to their respective regulators. Economy Co-operative Bank, as a small institution, is below the HMDA total asset threshold (\$32 million) and consequently is not required to report under HMDA. However, for comparative purposes this evaluation utilizes the aggregate HMDA reported data for lenders active within the Town of Merrimac in 2003.

Based on HMDA loan activity in 2003, there were 177 reporting lenders active within the Town of Merrimac. These mortgage lenders ranged from large nationally based mortgage companies (and regional banks) to small proprietary mortgage lenders. In aggregate, these HMDA reporting lenders accepted a total of 1,321 applications (for \$256.4 million). Of these, a total of 1,051 loans

PERFORMANCE CONTEXT (CONTINUED)

Aggregate Lenders' Data and Scope of the Evaluation (Continued)

(for \$206.7 million) were granted in 2003. Based on HMDA reported applications, the top ten mortgage lenders and their market share are as follows: (1) Countrywide Home Loans, Inc (8.6%); (2) GMAC Mortgage Corporation (7.3%), (3) Washington Mutual Bank, F.A. (6.1%); (4) GMAC Bank (4.6%); (5) Ameriquest Mortgage Company (3.4% market share); and (6) Merrimac Savings Bank (2.7%); (7) Wells Fargo Home Mortgage, Inc (2.6%); (8) Fleet National Bank (2.0%) and (9) GN Mortgage, LLC (1.7% market share) and (10) Chase Manhattan Mortgage Corp (1.7%). These ten combined held 40.7 percent market share of all mortgage loan applications reported under the HMDA requirements.

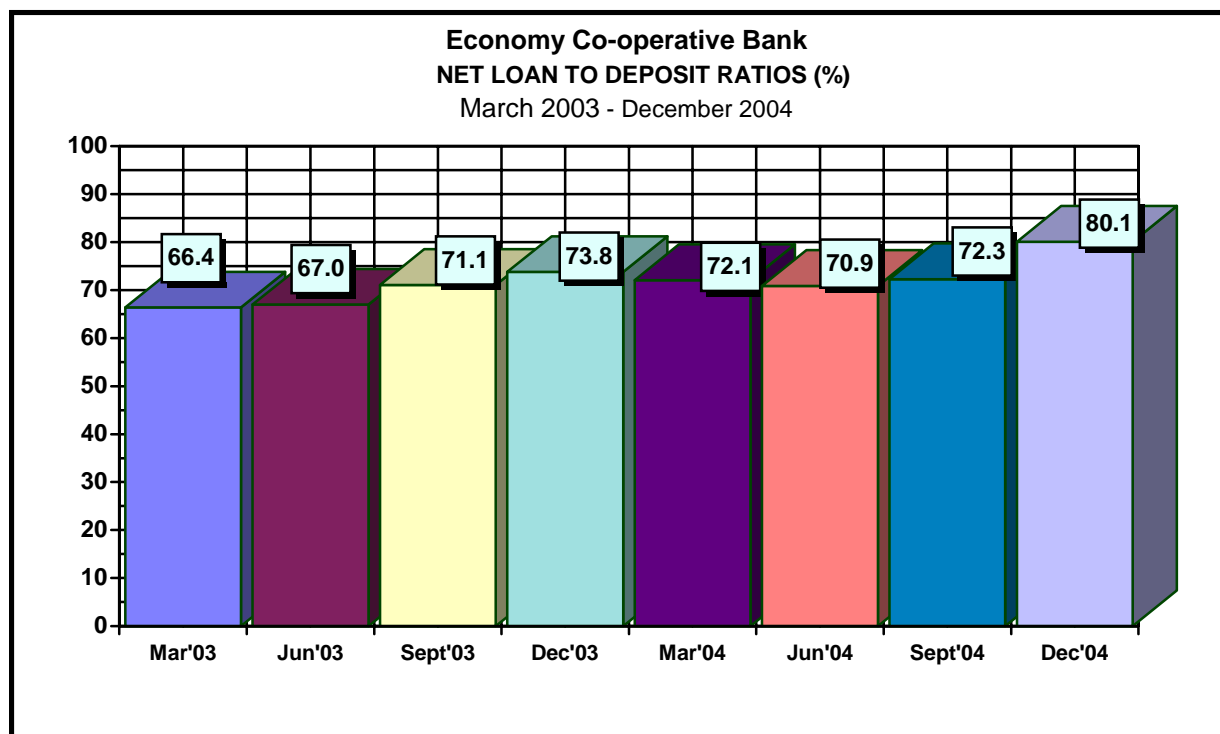
For this evaluation, the Bank's residential mortgage loan originations were analyzed for 2003 and 2004. This analysis was based on an internally maintained loan application register ("LAR") and included home purchase and refinanced first mortgages and home modernization/home improvement loans. Although Economy Co-operative Bank is not a HMDA reporter, the Bank in 2003 originated 36 loans within the assessment area, representing 3.4 percent of the HMDA reported loan originations (1,051 loans).

PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT ANALYSIS

This criterion evaluates the level and trend of the Bank's net loan-to-deposit ratio. The average net loan-to-deposit ratio is 71.5 percent for the eight quarters from March 2003 through December 2004. Economy Co-operative Bank's performance is considered to be reasonable, given the institution's lending capacity and the credit needs of its assessment area.

The following graph illustrates the ratio's level and trend for the quarters reviewed.



In year ending December 2003, the Bank's loans grew by 9.2 percent, while deposits grew by 3.1 percent, explaining the increasing trend in the ratio of net loans to deposits ("NLTD"). In 2004, the Bank's NLTD ratio declined slightly (in the first three quarters), then rose sharply in the final quarterly period. Through September 2004, the Bank's loans grew by a mere 0.2 percent, while deposit grew by 2.3 percent, followed by a sharp decline (negative 9.3%) in deposits in the quarter ending December 2004. Economy Co-operative Bank traditionally experiences a year-end decline in deposits, due (in large part) to a seasonal withdrawal of funds. However, the 2004 year-end deposit outflow represented an isolated and unique event that is not expected to reoccur.

PERFORMANCE CRITERIA (CONTINUED)

1. LOAN TO DEPOSIT ANALYSIS (CONTINUED)

Lastly, the following table compares Economy Co-operative Bank's net loan-to-deposit ratio to the NLTD ratio of two other "similarly situated" community based institutions. Economy Co-operative Bank's Net Loan to Deposits Ratio compares favorably to the other local banks.

Institution	Net Loans to Deposits	Total Assets \$'s (000's)
Economy Co-operative Bank	80.1%	\$23,351
Merrimac Savings Bank	65.9%	\$40,316
Haverhill Co-operative Bank	75.0%	\$155,642

Source: Call Reports (FDIC) as of 12/31/04

In summary, the Bank's average net loan to deposit ratio of 71.5 percent is reasonable, given the institution's capacity to lend and the credit needs of the assessment area. Overall, Economy Co-operative Bank meets the standards for a "satisfactory" rating for this criterion.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

The second performance criterion is based on the Bank's record of lending within its assessment area. Economy Co-operative Bank's lending activity within the assessment area represents a majority of all residential mortgage loans granted and consequently, meets the standards for a satisfactory performance. The Bank's internally generated mortgage loan register was analyzed to determine the Bank's performance for this and the subsequent lending criterion.

As the following table indicates a majority of loans (by number) were originated inside the assessment area. Although both number and dollar volume is analyzed, the number of loans is given greater weight than the dollar volume. The reason for this is that the number of loans does not vary due to the applicant's income, or the varying home prices within the assessment area.

Distribution of Home Mortgage Loans Inside and Outside the Assessment Area								
	Inside				Outside			
	Number of Loans		Dollar in Loans (000s)		Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%	#	%	\$	%
2003	36	57.1	3,848	47.6	27	42.9	4,241	52.4
2004	18	54.5	1,950	49.1	15	45.5	2,024	50.9
Total	54	56.3	5,798	48.1	42	43.7	6,265	51.9

Source: Bank's internal mortgage loan application register.

Economy Co-operative Bank granted a total of 96 mortgage loans for \$12.1 million in 2003 and 2004 combined. The loans granted inside the assessment area (54 loans totaling \$5.8 million) represented 56.3 percent (by number) and 48.1 percent (by dollars) of all home mortgage loans granted in the review period.

PERFORMANCE CRITERIA (CONTINUED)

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S) (CONTINUED)

Additionally, the residential mortgage loans granted outside the assessment area (42 loans totaling \$6.3 million) represented 43.7 percent (by number) and 51.9 percent (by dollar) of all residential loans originated.

The average loan size of loans granted inside the assessment area was \$107.4 thousand, while the average loan size of loans granted outside the assessment area was \$149.2 thousand. The overwhelming majority of all loans granted (both inside and outside the assessment area) were mortgage loan refinances. However, loans granted inside the assessment area included more home improvement loans and fewer home purchase mortgages, than loans granted outside the assessment area, explaining (in part) the smaller loan size and dollars granted.

In conclusion, the institution's lending inside its assessment area represented a majority of the loans originated and consequently, meets the standard for a satisfactory performance.

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

The third criterion evaluates the extent to which the institution lends to borrowers of different income levels within the assessment area. Mortgage loan originations were evaluated for 2003 and 2004 to determine the institution's performance. The Bank's performance for this criterion was found to be good and to meet the standards for a satisfactory performance.

Borrowers' income is compared to the area median/MFI for the MSA to determine the borrowers' income levels. By definition, borrowers qualify as low income (below 50% of MSA area median/MFI), moderate-income (between 50% and 79% of MSA median family income), middle-income (between 80 and 119% of MSA MFI) and upper-income (120% or more of MSA area median/MFI).

The Lawrence MA-NH MSA had an area median income/MFI of \$74,300 in 2003. The Essex County MD's (of which the Town of Merrimac is a now a part) had a median family income (MFI) of \$76,000 in 2004. In 2003, a low-income family earned \$36,400 or less, while a moderate-income family household earned from \$37,150 to no more than \$58,700, annually. Middle income families had incomes ranging from \$59,400 to \$88,400, while upper income family households earned \$89,160 or more, annually.

The following table compares Economy Co-operative Bank's 2003 and 2004 residential mortgage loans by borrowers' income levels to that of the aggregate HMDA reporting lenders. Additionally, the table compares these presentations to the distribution of family households (by income levels) within the assessment area.

PERFORMANCE CRITERIA (CONTINUED)

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS (CONTINUED)

Distribution of Residential Mortgage Loans by Borrower Income								
Median Family Income Level	Family Households (% of #)	2003 Aggregate Lending Data	2003		2004		Total	
		% of #'s	#	%	#	%	#	%
Low	13.9	3.7	3	8.3	3	16.7	6	11.1
Moderate	20.0	17.7	7	19.4	2	11.1	9	16.7
Middle	22.5	31.0	9	25.0	2	11.1	11	20.4
Upper	43.6	34.8	17	47.3	11	61.1	28	51.8
Not Available	0.0	12.8	0	0.0	0	0.0	0	0.0
Total	100.0	100.0	36	100.0	18	100.0	54	100.0

Source: U.S. Census, HMDA Aggregate Data (PCI's CRA Wiz software), bank's internal residential loan reports.

The comparison to both sets of data provides a measure of the reasonableness of the Bank's lending distribution. Notably, the Bank's 2003 loan distribution by borrower income levels mirrored closely the distribution of family households (by income levels) within the assessment area. Likewise, the Bank's lending in 2003 reasonably reflects the aggregate lenders' distribution, with some exceptions. Economy Co-operative Bank's lending to low and moderate-income borrowers exceeded the Aggregate Lenders' distribution to these income groups, while the Bank's lending to middle income borrowers was somewhat below the aggregate lenders' data. The Bank's loan distribution to upper income borrowers was well above the aggregate lenders' distribution. However, the aggregate lenders' distribution also includes a segment of borrowers for which income was not available (NA). The majority of these NA borrowers are more likely to fall within the upper income category, since the majority of these loans are granted as "no income" loans. Economy Co-operative did not grant any NA loans (or no income loans), explaining in part the Bank's greater distribution to upper income borrowers.

The Bank's lending distribution (by dollars) was also compared to the Aggregate Lenders' distribution (by the dollars volume granted). Economy Co-operative Bank granted a total of 3.8 million dollars within the assessment area in 2003. Of these dollars, the Bank granted 3.0 and 10.6 percent (a total of 13.6%) to low and moderate-income borrowers, respectively. In comparison, the aggregate lenders granted 2.1 and 14.6 percent (a total of 16.7%) to low and moderate-income borrowers, respectively. Furthermore, the Bank originated 27.7 and 58.6 percent (of all dollars) to middle and upper income borrowers, respectively. In comparison, the aggregate lenders originated 29.5 (of the total dollars extended) to middle income borrowers and a combined 53.8 percent to upper income and income not available (NA) borrowers.

Overall, the Bank's 2003 borrower income distribution (by number and dollar volume) is considered to be good in comparison to the aggregate lenders' distribution. However, the aggregate lenders distribution (by dollars) among low, moderate and middle income borrowers was somewhat stronger than the Bank's among these income groups. It is important to note that the aggregate lenders' data indicates the level of lending opportunities, which exists among borrowers of different income categories.

Economy Co-operative Bank in 2004 granted 18 loans totaling \$2.0 million within its assessment area. The Bank's 2004 lending distribution is not considered to be statistically reliable, given the small number and volume of loans granted. Consequently, the Bank's performance in 2003 serves as the basis of the Bank's performance rating for this lending criterion.

PERFORMANCE CRITERIA (CONTINUED)

3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS (CONTINUED)

In summary, Economy Co-operative Bank's lending distribution is considered to be good, given the comparison to the assessment area's household demographics and to the HMDA Aggregate Lenders' data. Consequently, the bank's performance for this lending criterion meets the standards for "satisfactory" performance.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

The fourth performance criterion evaluates the institution's record of addressing the credit needs of the assessment area based on the geographic distribution of loans. This performance criterion was not evaluated, since the Bank's assessment area is comprised on a single middle income census tract

5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES

Economy Co-operative Bank received no complaints regarding its CRA performance for the period under review. The Bank regularly implements fair lending policies and practices and its performance is considered to be reasonable. The following briefly outlines the Bank's fair lending performance.

Economy Co-operative Bank has a written fair lending policy that prohibits all illegal discrimination in the conduct of its lending activities. The Bank conducts an internal audit annually to review its compliance with some aspect of the Equal Opportunity Credit Act (ECOA). These internal reviews/audits are conducted by a Director of the Bank who is not directly involved with the underwriting and approval of loan applications.

The Bank offers fixed rate and 1 year and 3 year adjustable rate mortgage (ARM) loans. The maximum term offered is 30 years; the maximum loan to value (LTV) is 80.0 percent. Economy Co-operative Bank is approved to offer PMI (private mortgage insurance), if a qualified borrower does not conform to the 80.0 percent conventional mortgage standard. Economy Co-operative Bank's consumer loan offerings include car loans and demand loans, secured by savings or certificate of deposit accounts.

During the period under review, the Bank received no residential loan applications (within its assessment area) from a member of a racial or ethnic minority group. Based on the 2000 U.S. Census data, the assessment area's population is comprised as follows: white (97.8%), minority (2.2%), including Native American (0.1%), Asian (0.3%), Black (0.3%), Hispanic (0.9%) and Other (0.6%). The HMDA aggregate lenders received 1,321 applications of which 32 applications, representing 2.4 percent (of all applications), were from members of a racial or ethnic minority.

An institution's ability to attract minority applicants may be influenced by a number of factors including product offerings, competition and customer base and marketing presence within the minority communities.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each local community;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (6 West Main Street, Merrimac, MA 01860)."

[Please Note: If the institution has more than one local community, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that community.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.